

Message Text

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DRAFTED BY:IO:CRFRANK, JR.

APPROVED BY:IO:TBROWN

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FOLLOWING REPEAT KINSHASA 2920 ACTION SECSTATE INFO DAR ES
SALAAM, LIBREVILLE, AND YAOUNDE DATED MAR 31, 1978.

QUOTE: LIMITED OFFICIAL USE KINSHASA 2920

FOR UNDERSECRETARY COOPER AND ASSISTANT SECRETARIES MAYNES (IO) AND
KATZ (EB) FROM DEPUTY ASSISTANT SECRETARY FRANK

E.O. 11652: N/A

TAGS: ETRD, EGEN, PORG, UNGA, UNCTAD

SUBJECT: COMMON FUND CONSULTATIONS

1. DURING OUR DISCUSSIONS WITH THE MINISTER OF FINANCE IN CAMEROON
(REPORTED SEPTEL), THE MINISTER REQUESTED THAT WE GIVE HIM SOMETHING
IN WRITING THAT EXPRESSES OUR VIEWS ON THE RESUMPTION OF THE COMMON
FUND NEGOTIATIONS. SIMILARLY IN GABON, DURING OUR CONSULTATIONS WITH

THE MINISTRIES OF FOREIGN AFFAIRS, PLANNING, FINANCE AND COMMERCE,
AND THE PRESIDENCY, THE DESIRE WAS EXPRESSED SO THEY COULD STUDY OUR
VIEWS AND GIVE A MORE CONSIDERED RESPONSE. A JOINT MEMCON WILL BE
PREPARED FOR THIS PURPOSE.

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2. I SUGGEST THAT WE GIVE BOTH GOVERNMENTS A PAPER, PREFERABLY
TRANSLATED INTO FRENCH BY THE DEPARTMENT. THE SAME DOCUMENT COULD
BE USED IN OTHER POSTS.

3. A PAPER MIGHT BE GIVEN ALONG THE FOLLOWING LINES:

BEGIN TEXT

4. THE UNITED STATES HOPES THAT THE NEXT NEGOTIATING SESSION ON THE COMMON FUND CAN REACH SOME AGREEMENT ON A COMMON FUND TO FACILITATE THE FINANCING OF BUFFER STOCKS FOR THE PURPOSE OF STABILIZING PRICES OF BASIC RAW MATERIALS. THE DATE FOR THE RESUMPTION OF THE NEGOTIATING CONFERENCE HAS NOT BEEN SET. WE DO NOT BELIEVE IT WOULD BE WISE TO SET A DATE FOR RESUMPTION UNLESS THERE WERE SOME BASIS FOR BELIEVING THAT AGREEMENT ON THE FUNDAMENTAL ISSUES CAN BE REACHED AT THE NEXT NEGOTIATING SESSION.

5. THE UNITED STATES AND OTHER INDUSTRIALIZED COUNTRIES TABLED A PROPOSAL FOR A BUFFER STOCK FINANCING FACILITY AT THE LAST NEGOTIATING SESSION ON THE COMMON FUND. THIS PROPOSAL WAS A SERIOUS EFFORT TO ESTABLISH A WORKABLE BUFFER STOCK FINANCING FACILITY BASED ON CONTRIBUTIONS MADE THROUGH INDIVIDUAL COMMODITY ARRANGEMENTS. WE WOULD BE PREPARED AT THE NEXT NEGOTIATING SESSION TO DISCUSS MODIFICATIONS TO THIS PROPOSAL THAT MIGHT IMPROVE THE EFFECTIVENESS AND FUNCTIONING OF A COMMON FUND FACILITY FOR FINANCING BUFFER STOCKS. IN PARTICULAR, WE WOULD BE WILLING TO DISCUSS THE FOLLOWING ITEMS AT THE NEXT NEGOTIATING CONFERENCE:

- THE APPROPRIATE RATIO BETWEEN CASH DEPOSITS MADE BY AN INDIVIDUAL COMMODITY ARRANGEMENT AND ITS ABILITY TO BORROW FROM THE COMMON FUND UP TO ITS MAXIMUM FINANCIAL REQUIREMENT;
- THE MANNER IN WHICH GOVERNMENT GUARANTEES WOULD BE PLEDGED LIMITED OFFICIAL USE

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TO THE COMMON FUND IN ORDER TO SUPPORT COMMON FUND BORROWING IN PRIVATE CAPITAL MARKETS:

- THE MEANS BY WHICH THE COMMON FUND MIGHT LEND TO NATIONALLY-HELD STOCKS THAT ARE INTERNALLY COORDINATED THROUGH AN INTERGOVERNMENTAL AGREEMENT;
- ADMINISTRATIVE COSTS OF THE COMMON FUND AND THE MEANS BY WHICH SUCH COSTS MIGHT BE FINANCED;
- THE CAPITAL STRUCTURE OF THE COMMON FUND AND THE NECESSITY OF SOME EQUITY BASE FOR THE COMMON FUND, SUCH AS A LOSS-RESERVE FUND, AND THE MEANS OF FINANCING THAT EQUITY BASE.

6. THE UNITED STATES IS ALSO PREPARED TO DISCUSS THE PROBLEM OF OTHER MEASURES AT THE NEXT NEGOTIATING CONFERENCE. IN PARTICULAR, WE WOULD LIKE TO DISCUSS AT THE NEXT SESSION OF THE NEGOTIATING CONFERENCE:

- THE RESOURCES AVAILABLE FOR FINANCING OTHER MEASURES SUCH AS PRODUCTIVITY IMPROVEMENTS, MARKETING IMPROVEMENTS, NEW END-PRODUCT RESEARCH AND DIVERSIFICATION THROUGH THE WORLD BANK AND THE REGIONAL DEVELOPMENT BANKS, AND THE MANNER IN WHICH THE EFFORTS OF THESE INSTITUTIONS IN THE FIELD OF OTHER MEASURES CAN BE IMPROVED; AND

-- THE NEED AND POSSIBILITIES FOR FINANCING OTHER MEASURES
THROUGH INDIVIDUAL COMMODITY ARRANGEMENTS, EXCEPT FOR
PRODUCT DIVERSIFICATION MEASURES.

7. THE NEXT SESSION OF THE NEGOTIATING CONFERENCE SHOULD ALSO
INVOLVE CONSIDERATION OF THE VOTING AND POLICY CONTROL MECHA-
NISMS FOR THE COMMON FUND. ANY PROPOSALS THAT THE UNITED STATES
WOULD MAKE REGARDING THE FINANCING OF BUFFER STOCKS WOULD BE
SUBJECT TO SATISFACTORY AGREEMENT ON A STRUCTURE FOR VOTING
AND POLICY DETERMINATION.

8. THE UNITED STATES DOES NOT BELIEVE THERE IS A NEED FOR A SECOND
WINDOW OF THE COMMON FUND TO FINANCE OTHER MEASURES. WE WOULD
RATHER STRENGTHEN THE ACTIVITIES OF EXISTING ORGANIZATIONS THAT
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HAVE THE EXPERIENCE AND CAPABILITY IN THIS FIELD. WE BELIEVE THAT
THE ESTABLISH OF A NEW INSTITUTION TO FINANCE OTHER MEASURES
WOULD NOT RESULT IN THE MOST EFFECTIVE USE OF THE LIMITED RESOURCES
AVAILABLE FOR DEVELOPMENT ASSISTANCE. THE EXISTENCE OF A SECOND
WINDOW FOR DEVELOPMENT ASSISTANCE PURPOSES MAY ALSO REDUCE THE
CREDITWORTHINESS OF THE COMMON FUND AND ITS ABILITY TO BORROW IN
PRIVATE CAPITAL MARKETS. THE UNITED STATES, THEREFORE, WILL NOT
MAKE ANY CONTRIBUTION TO A SECOND WINDOW OF THE COMMON FUND.

9. THE UNITED STATES DOES NOT RULE OUT THE POSSIBILITY OF DIRECT
CONTRIBUTIONS TO THE COMMON FUND FOR ADMINISTRATIVE COSTS OR FOR
A LOSS-RESERVE FUND IF THIS IS NECESSARY TO ENHANCE THE CAPABILITY
OF THE COMMON FUND TO BORROW IN PRIVATE CAPITAL MARKETS. THE
UNITED STATES IS NOT PREPARED, HOWEVER, TO MAKE A DIRECT CONTRIBUTION
TO THE FIRST WINDOW FOR THE PURPOSE OF LENDING THESE CONTRIBUTIONS
TO INDIVIDUAL COMMODITY ARRANGEMENTS. THE UNITED STATES IS PREPARED
TO PARTICIPATE IN JOINT PRODUCER-CONSUMER FINANCING OF BUFFER STOCK
ARRANGEMENTS AND TO USE THE COMMON FUND TO FACILITATE THESE FINANCING
EFFORTS.

10. AS WE APPROACH THE NEXT NEGOTIATING SESSION OF THE COMMON FUND,
WE SHOULD BE AWARE OF PROGRESS BEING MADE ON INDIVIDUAL COMMODITY
ARRANGEMENTS. ARRANGEMENTS NOW EXIST FOR COCOA, COFFEE, TIN, AND
SUGAR. WE WELCOME THE RECENT DECISION TO RENEGOTIATE THE COCOA
AGREEMENT OF WHICH THE UNITED STATES IS NOT NOW A MEMBER. WE WILL
PARTICIPATE ACTIVELY IN THIS RENEGOTIATION IN THE HOPE THAT WE CAN
REACH AN AGREEMENT WHICH THE UNITED STATES CAN JOIN. WE HAVE AGREED
TO PARTICIPATE IN THE NEGOTIATION OF A RUBBER AGREEMENT. PROGRESS
HAS BEEN MADE TOWARD THE ESTABLISHMENT OF A PRODUCER-CONSUMER
FORUM FOR COPPER.

1. THE UNITED STATES WOULD WELCOME THE VIEWS OF YOUR GOVERNMENT
AS TO WHETHER THERE ARE REASONABLE PROSPECTS BASED ON THE ABOVE,
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FOR REACHING AGREEMENT ON THE BASIC ISSUES ON THE ESTABLISHMENT OF
A COMMON FUND.

END TEXT

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